

August 16, 2007

The Honorable Larry Gossett  
Chair, King County Council  
Room 1200  
C O U R T H O U S E

Dear Councilmember Gossett:

I am pleased to transmit the enclosed legislative package that will allow my staff to pursue an exciting new opportunity to potentially leverage King County real property assets to obtain significant financial advantage. This initiative is prompted by recent unsolicited inquiries from the private market requesting consideration of a sale of the King Street Center. Early analysis indicates that this opportunity, if pursued, could allow the County to sell King Street Center for potentially significantly more than it would cost to replace that space on County-owned property. *This could allow us to employ private sector real estate market strategies to leverage our own real estate assets to achieve the greatest possible value and use of King County's downtown Seattle properties.*

There are significant benefits to pursuing a potential sale of King Street Center at this time. First, the investment market for high quality commercial real estate assets like King Street Center are unusually strong. For so long as this uncommon investment market exists, King County will enjoy an opportunity to extract substantial "extra" value from conveyance of King Street Center.

Second, the magnitude of this "extra" value is potentially significant. Today, this value is more than what it will cost to replace the space for the county departments housed in King Street Center. As discussed below, replacement of this space may be possible in a re-developed and LEED Gold certified Administration Building at no additional cost to the County.

The enclosed motion approves the first steps in beginning to analyze and consider the potential sale of King Street Center. The motion provides policy support regarding this potential strategy and will support the Facilities Management Division (FMD) moving forward to test the market and determine what price can be obtained in a sale of King Street Center. Any final

decision to actually sell King Street Center would, of course, be subject to later council approval. This motion only indicates policy support for evaluation of this opportunity.

Because the extra value possibly available in a sale of King Street Center is dependent on the unusually strong commercial real estate market, it is important that we move forward with all due speed to analyze this opportunity and then make a decision.

***Re-development of Administration Building Site***

At the time my staff became aware of the private market interest in the King Street Center, we were in the midst of an analysis of redeveloping the existing Administration Building. The initial analysis suggests that redevelopment of the Administration Building is a challenging and complex, but viable economic option.

As you know, the King County Administration Building was built 37 years ago. It is now aging and inefficient and has reached a stage in its lifecycle where the major maintenance reserve fund costs for its upkeep are growing significantly. It also sits on a prime downtown land parcel centrally located in the midst of other King County and City of Seattle government offices, providing a perfect opportunity to create a modern civic campus for serving the public more efficiently.

The Administration Building is somewhat of a blight upon the neighborhood. Upon its completion in 1970, the King County Administration Building was described by Seattle Design Commissioners as “an atrocity,” “unusually hideous” and “the ugliest governmental center in any city in the country.” The ensuing years have not improved the structure. In short, the existing Administration Building is old, ugly, inefficient, asbestos laden, and ties up valuable real estate, preventing King County from maximizing the economic value of prized downtown land.

Expert development consultants from Seneca Real Estate Group have advised that to make the development cost neutral to King County, approximately 850,000 square feet of development is required. Preliminary design concepts have been discussed with Seneca and the City of Seattle. At this preliminary concept stage, the following attributes are being considered:

- A building height of 340 feet, approximately 28 floors. The bottom floors would be large floor plates, with stepped setbacks in the higher floors. The lowest six floors would be about 40,000 square feet each. The next 12 floors about 33,000 feet each, and the top ten floors about 23,000 square feet each.
- Parking on the site would accommodate about 425 cars.
- **Skybridge Removal:** Under this proposal, the existing skybridge would be replaced with a tunnel transport system to move inmates from the King County Jail to the Courthouse.

Preliminary estimates suggest approximate development costs of \$415 per square foot (\$350,000,000), not including County owned land. The cost base, including land, to a non-King County user/tenant, would be approximately \$425.

The proposed development of a new building would likely involve a lease-lease back arrangement financed under IRS Rule 63-20. As a reminder, this financing structure has been highly successfully on a number of King County projects, including the King Street Center, the New County Office Building, the Patricia Bracelin Steel Memorial Building, and the Harborview Ninth and Jefferson Building. As in all of the 63-20 lease-lease back projects King County has done to date, King County will own the land and all development at the end of the lease.

To test the viability of the developer market, the FMD team issued a Request for Concepts and Qualifications (RFC/Q) on October 19, 2006. The Project Goals included:

1. Improving governmental service delivery with no added cost to taxpayers. Accommodating regional services in an inviting, multipurpose building.
2. Creating an integrated governmental office neighborhood by re-orienting the Courthouse Entrance to a greater King County campus, within a cohesive government services neighborhood including City of Seattle government buildings.
3. Improve accessibility to government services.
4. Improve the South Downtown Seattle neighborhood by implementing a comprehensive, coordinated set of capital improvements on the King County Campus (skybridge removal, City Hall Park renovation, restoring the Courthouse South Entrance, redevelopment of the King County Administration Building site).
5. By consolidating service locations, reduce traffic, taking advantage of public transportation.
6. Upgrading facilities: Replacing an aging and antiquated public office building with efficient and productive work spaces that boost the level of service that county staff can provide to taxpayers.
7. Maximizing value: Developing the Site to its full potential, thereby maximizing the value of the underlying land and development rights and using that value to mitigate the costs of the building replacement.
8. Skybridge removal: Eliminating the existing skybridge across the Site between the Jail and the Courthouse and providing a replacement route for prisoner transport between these facilities.
9. Facilitate the South Downtown: Promoting the growth and vibrancy of the South Downtown area as well as encouraging quality transportation and other connections between South Downtown neighborhoods and the downtown itself. For a more detailed description of Seattle's goals for this area as well as Seattle's Center City Strategy, please visit the following websites:  
[http://www.ci.seattle.wa.us/dpd/planning/south\\_downtown/overview/](http://www.ci.seattle.wa.us/dpd/planning/south_downtown/overview/)  
[http://www.ci.seattle.wa.us/dpd/planning/center\\_city/overview/](http://www.ci.seattle.wa.us/dpd/planning/center_city/overview/)
10. Sustainability: Creating a building that is environmentally sustainable by building to Leadership in Energy Efficient Design (LEED) standards.
11. Public Art: Implementing public art installations by providing quality locations for the 1% for Arts Program; and
12. Jobs: Stimulating jobs through the development process.

Two viable developers came forward with concepts: Sabey Corporation and Wright Runstad and Company. Both concepts met the basic requirements as outlined in the RFQ/C, and both developers were deemed qualified. Given the conceptual nature of the proposals, it was not possible to do a full economic analysis of the two proposals at that phase in the process. To further evaluate the two concepts, a Request for Proposals (RFP) was issued, requiring more specific development concept and financial information. Specifically, the RFP refined its focus on entitlement and financing issues, encouraged design refinements, identified an interviewing process, and required submission of a developer guaranteed soft cost budget.

Evaluation of the RFPs resulted in a clear and significant difference in cost between the two proposals. Sabey identified guaranteed maximum soft costs which were considerably higher than Wright Runstad's; therefore Wright Runstad has been selected as the developer for this project, should the project move forward.

### ***Proposed Development Initiative***

The analysis thus far of the redevelopment of the Administration Building indicates it is an economically viable option in and of itself. When coupled with the possible sale of King Street Center, the economic viability of the redevelopment looks even more promising.

In light of the private sector interest and potential extra value in the King Street Center, FMD is including in its on-going analysis the possible sale of King Street in the options to consider in providing for a redeveloped Administration Building. The initial indication is that leveraging the sale of King Street Center and relocating those existing county tenants to a new Administration Building makes the proposed redevelopment of the Administration Building a cost neutral proposition according to preliminary indications.

Initial indications suggest the county might be able to obtain more value for King Street Center than it would cost to replace the space in a redeveloped Administration Building. This unique opportunity offers significant financial advantages and should not be ignored.

In a nutshell, the proposed Administration Building initiative, with a King Street sale included, contains the following possible benefits and components:

1. **New building tenancy:** 320,000 square feet of tenant space would be relocated from the King Street Center to the new building on the Administration Building site. These tenants, coupled with the tenants from the existing Administration Building, provide the critical mass of King County tenancy required to make a new Administration Building project economically viable.
2. **Economic value:** Sale of the King Street Center transfers economic value to the new development proposal. The King Street Center was constructed in 1999 at a cost of \$65 million. Its current value may be as high as \$140 million. Given the current real estate market, and the high demand for office space in the Pioneer Square area, it is possible that the county could achieve significant financial gain through a transaction involving the sale of King Street Center. In essence, the county might be able to recoup significantly more for King Street Center than it would cost to replace that space in a

new Administration Building. The county achieves *additional* benefits from operational savings, co-location of personnel, and a highly efficient and sustainable building.

3. **Consolidation of King County government functions:** Moving the tenants from the King Street Center to the newly developed campus would consolidate King County services into one downtown service center.

### ***Proposed Tenancy***

In addition to the King County agencies outside tenants are on the list of potential occupants if the Administration Building is redeveloped. Outside (non-King County) leases would range from a minimum term of seven years and a maximum of 20 years. The current concept envisions outside leases in the range of 30% to 35% of initial tenancy. Below is a preliminary list of potential tenants:

- **Existing King County Administration Building tenants.** This excludes, of course, King County Elections, which will be moving to the Earlington Building in Renton. It also excludes the Prosecuting Attorney's Office (PAO), which would more appropriately be consolidated into PAO space in the Courthouse
- **All King Street tenants:** The King County functions currently located at the King Street Center would be relocated to the new, consolidated King County campus.
- **King County Council:** The King County Council would be an excellent tenant for the new building, freeing up space in the Courthouse for the full consolidation of the King County Prosecutor's Office (PAO). Consolidation of PAO functions is consistent with adopted County policy, which establishes the Courthouse as a Law, Safety, and Justice Facility.
- **King County Executive:** The King County Executive Office functions currently located in the Columbia Center would be moved from this outside leased space into the new County-owned facility. This move not only comports to the King County policy to minimize outside leases of office space, but also moves toward a long-standing council desire to locate the Executive's Office with the council.
- **State of Washington General Administration (GA):** The GA has expressed an interest in leasing a significant portion of the new development, should it move forward. The current, preliminary discussions envision a potential for up to 200,000 square feet of GA occupancy.
- **Seattle Housing Authority:** The Seattle Housing Authority is interested in leasing about 50,000 square feet in the new facility.

### ***Integrated Campus Approach***

This initiative envisions an integrated campus approach to the development of the King County Administration Building site. As mentioned above, the FMD team is working closely with the City of Seattle to make sure that our proposed development complements and enhances the City campus development. In addition to providing for superior urban planning, better public service, and cost efficiencies, this integrated campus approach provides for significant advantages in the entitlement process. By proceeding with the project as a Planned Community

Development (PCD), the county will be allowed to transfer development rights to the Administration Building site from various parcels on the campus. This approach allows the City to take into consideration public benefits for the campus as a whole, potentially reducing the costs for increased Floor Area Ratio (FAR) on the Administration Building site by up to \$10 million.

The PCD will include the King County Courthouse, City Hall Park, the New County Office Building, the King County Correctional Facilities, the county-owned parcels on Goat Hill, the Yesler Building, and the Administration Building site itself. The development of the Administration Building site will be looked at holistically with other potential projects on the campus, including options for the development of Goat Hill parcels, the South Entrance to the King County Courthouse, and City Hall Park. (Please note that, at this preliminary stage, I am only requesting funding to move forward with the Administration Building proposal in the enclosed legislation.)

#### ***Supplemental Request***

In order to support the continued work of FMD on this important initiative, an appropriation ordinance is also enclosed. The proposed ordinance appropriates \$591,000 to allow FMD to proceed with the first phase of study for the potential to sell King Street Center and further analyze the redevelopment of the King County Administration Building. This effort involves close coordination with the City of Seattle to ensure development of a cohesive downtown government services section of the City. The goal is to have the City and county campuses compliment one another, creating an efficient service center for citizens, in an attractive and well planned community development.

This legislative package, if approved, will be the first of a series I will be transmitting to council if further review indicates this initiative should move forward. As indicated by the preliminary project schedule (discussed later in this letter), there are a series of checkpoints along the way, where Council will have opportunities to review progress and provide policy direction.

The \$591,000 for the initial study phase is to pay for the following in 2007:

Staff Support	\$221,000
Consultant Services	\$200,000
Developer Study Phase	<u>\$170,000</u>
Subtotal KC Admin	\$591,000

#### ***Interrelationship between the King Street Center and Redevelopment of the Administration Building***

As noted above, prior to any unsolicited offers on the King Street Center, FMD staff was evaluating the feasibility of redevelopment of the King County Administration Building site. Preliminary analysis indicated that it could be possible to redevelop the Administration Building in a cost neutral manner. The economic analysis was conducted using conservative

assumptions; with these conservative assumptions it appeared that the proposal was viable, however there was not much “cushion” at the end of the analysis. In other words, it appeared that the proposal was just economically viable, assuming the development was to be entirely cost neutral to King County taxpayers.

Tying the King Street Center sale into the Administration Building site redevelopment accomplishes two important goals: 1) it provides additional tenant occupancy for the new development reducing project risk; and, 2) it provides a cushion in the economic analysis by bringing significant economic value (profit from the King Street sale) into the mix.

**I would not propose moving forward with the sale of the King Street Center without a viable Administration Building redevelopment plan.** Clearly, the King County functions currently located at the King Street Center will need to be relocated for such a sale to take place. It is potentially feasible, however, depending on the final development proposal, to move forward with the redevelopment of the Administration Building without the sale of the King Street Center. The economic analysis would be “tight” in terms of cost-neutrality, and there would be a need to find additional tenants for the development.

The proposed legislation allows us to further investigate and evaluate both of these important initiatives on parallel, interrelated tracks.

#### ***Next Steps***

Following council approval of the enclosed legislation, FMD will proceed to initiate the study phase to confirm the viability of the proposal and determine the best approach to proceeding. Assuming that the project continues to appear viable, we would then proceed with negotiation of a pre-development agreement and begin the detailed pre-development work. The proposal could move forward on the following tentative milestones:

Council appropriation for initial study	09/07
Complete initial study	11/07
Complete appropriation for pre development	12/07
Complete pre development agreement	12/07
Complete pre development	03/08
Complete design development	08/08
Council adoption of lease and dev. agreement	10/08
Entitlement and MUP review	10/08
Complete negotiations with outside tenants	11/08
Start demolition / construction	02/09
Beneficial occupancy and start move in	03/11

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Page 8

Thank you in advance for your consideration of this exciting opportunity. If you have any questions, please feel free to call Facilities Management Division Director Kathy Brown, at 206-296-0631.

Sincerely,

Ron Sims

King County Executive

Enclosures

cc: King County Councilmembers

ATTN: Ross Baker, Chief of Staff

Nancy Glaser, Policy Staff Director

Anne Noris, Clerk of the Council

Bob Cowan, Director, Office of Management and Budget (OMB)

Sid Bender, Capital Budget Supervisor, OMB

Jim Buck, County Administrative Officer Designee, Department of Executive Services (DES)

Kathy Brown, Director, Facilities Management Division, DES